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The Conference Board

Eastern Europe's Trade with the West

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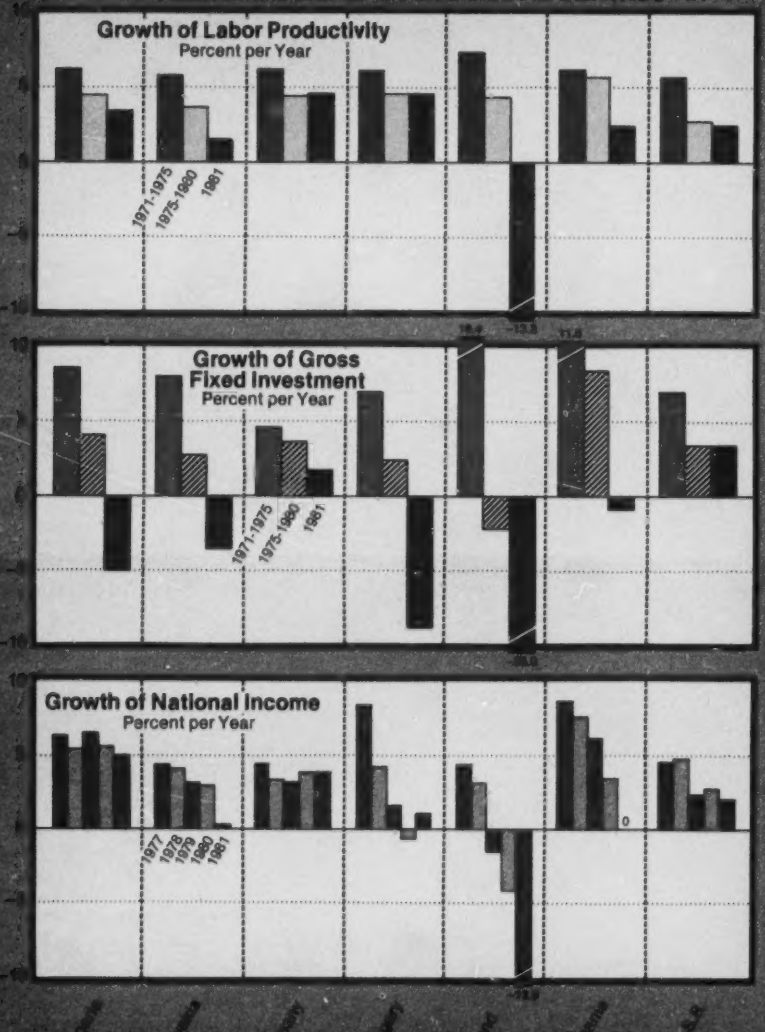
Until the 1960's, the European member countries of COMECON—the centrally planned economies of Eastern Europe—pursued a policy of economic autarky, regarding foreign trade as merely an outlet for surplus domestic production or a way to cover temporary shortfalls. This attitude changed slowly, but in the 1970's East-West trade achieved sufficient momentum to expand from a combined total of $14 billion in 1970 to almost $100 billion in 1980. While the COMECON countries generally have attempted, within their planning schedules, to achieve a balance between each pair of trading partners, trade with the industrial countries of the West has involved continually growing deficits for COMECON. These have accumulated mainly because the COMECON countries have been unable to expand their exports sufficiently to pay for the purchase of increasingly expensive Western technology, grain and other agricultural commodities.

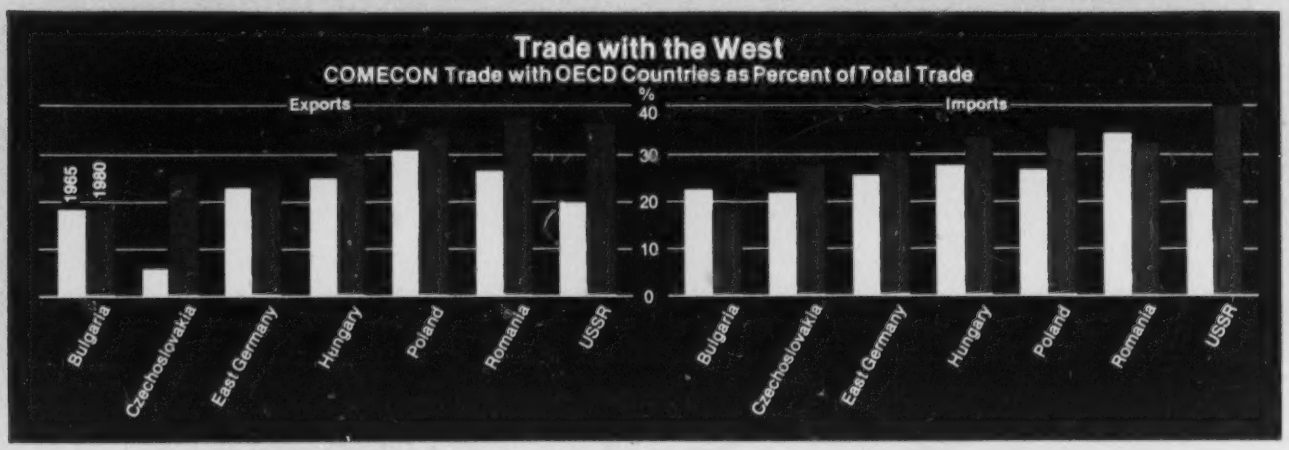
Recent Record of COMECON Countries

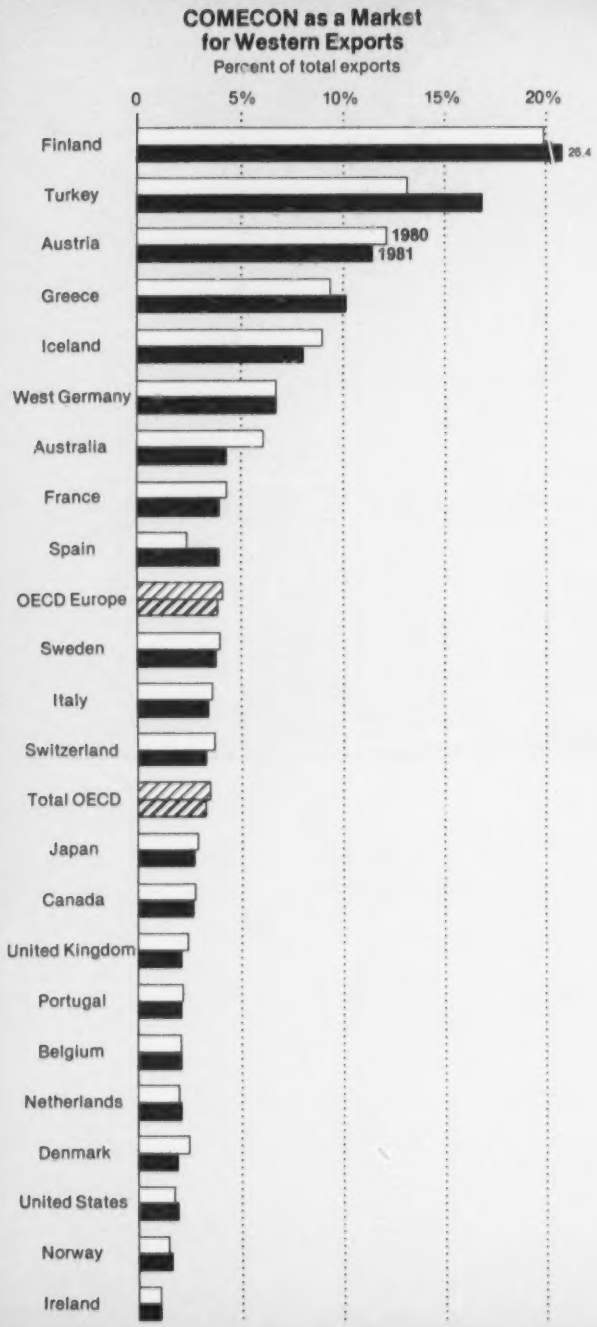


COMECON Countries' Share in World Totals

A recent study, prepared for the Joint Economic Committee of the United States Congress, predicts that the COMECON countries will continue to register growing deficits in their trade with the industrial West. In turn, this will tend to increase their need for credits from Western lenders.

Economic growth in the centrally planned economies of Eastern Europe has been slowing down over the past decade, and recently released plans for 1981-1985 point to a further slowing. These developments reflect, above all, the fact that one major source of growth in the past—a growing labor force—has been largely exhausted. In addition, what labor is available is often utilized in uneconomic ways. Thus, a recent Soviet estimate indicates that about 40% of work that could be automated is still being done manually in Soviet industry. According to another report, nearly one million workers now in Soviet forestry could be released if work were sufficiently mechanized.

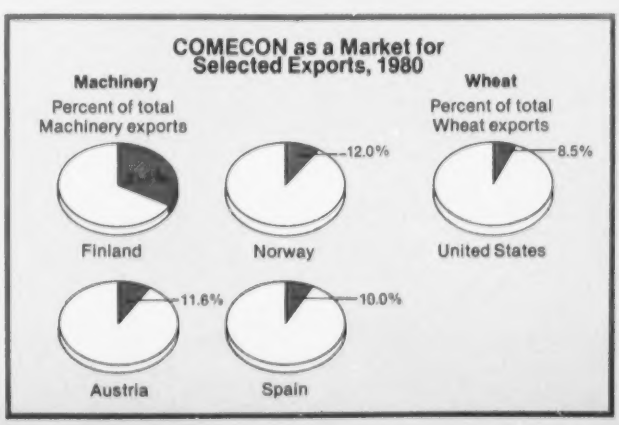




The authorities in many COMECON countries have had to rely on tapping Western resources, which have been obtained through credits for capital goods purchases and transfers of technology. Trade with the West has become an important aspect of economic life.

The dependence of the European COMECON countries on trade with the industrial countries has increased since the early 1970's. For the Western countries, on the other hand, the share of trade with COMECON has not changed very much. For individual countries, however, COMECON trade can be quite important. Finland, for instance, ships one-quarter of its total exports and nearly one-third of its machinery exports to Eastern Europe. One-third of all the industrial countries sell more than 4% of their exports—and seven of these countries sell over 5% of their machinery exports—to Eastern Europe. Over 8% of U.S. wheat exports go to Eastern Europe.

With regard to Western imports from COMECON, Finland similarly shows the largest dependence, with one-quarter of its total imports and nearly two-thirds of its energy imports coming from Eastern Europe. One-third of the Western countries rely on Eastern Europe for over 5% of their total imports. The West's dependence on COMECON is most striking in energy. Western Europe as a whole now derives more than 10% of its total energy imports from COMECON countries, with six countries showing a higher share. Once the gas pipeline from Western Siberia is completed, these shares are expected to rise. France and West Germany, for example, will then depend on the Soviet Union for over one-third of their



natural gas consumption and for more than 5% of their total energy consumption.

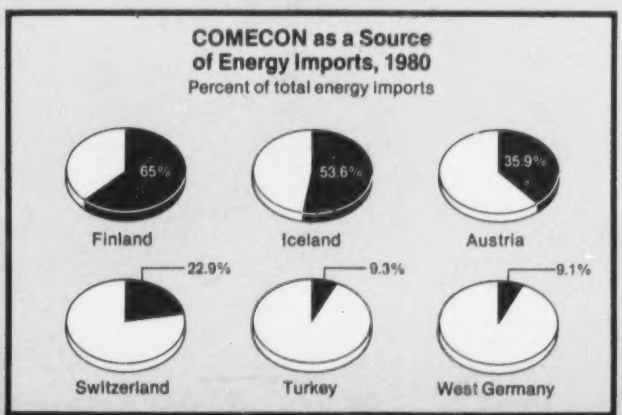
East-West trade grew more rapidly during the past decade than the overall foreign trade of either side. In 1981, however, East-West trade increased only slightly, and in real terms declined for the first time since the early 1950's. Within COMECON, the share of trade with the West ranges from under 20% for Bulgaria to more than 35% for Romania, Poland and the U.S.S.R. The Soviet Union accounts for about half of COMECON's total trade with the West.

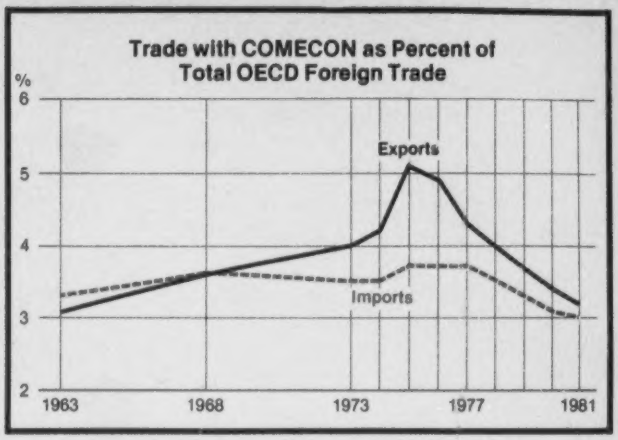
The indebtedness of the European COMECON countries to the West grew from about $6 billion in the early 1970's to close to $80 billion last year. This increase in capital imports from the West reflected continued deficits with the West in both trade and services. The situation was aggravated by the rise in world interest rates, which increased the cost of servicing the debts.

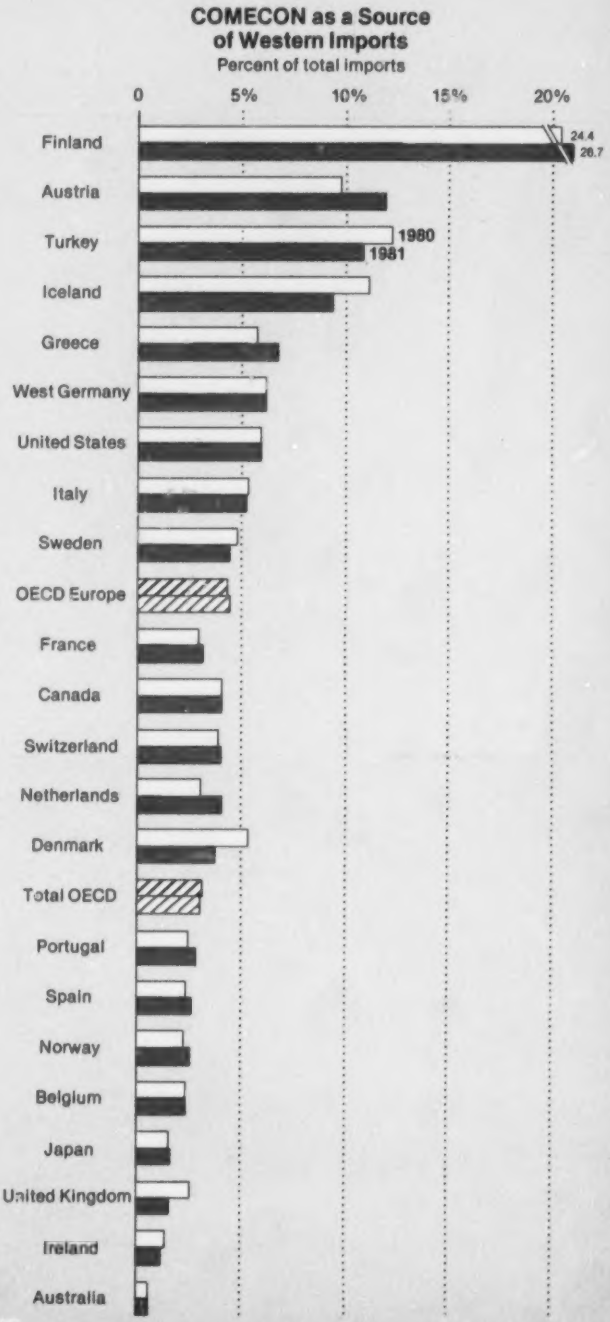
The present indebtedness to the West represents a large percentage of gross domestic product for most COMECON countries. Hungary's debt now equals more than 18% of GDP, and Romania's 21 percent. If the projected debt increases prove correct, Hungary's debt could equal more than half of GDP by 1985, and that of Poland and Romania around one-third. For all countries except the Soviet Union, outstanding indebtedness already is larger than annual export earnings from the West.

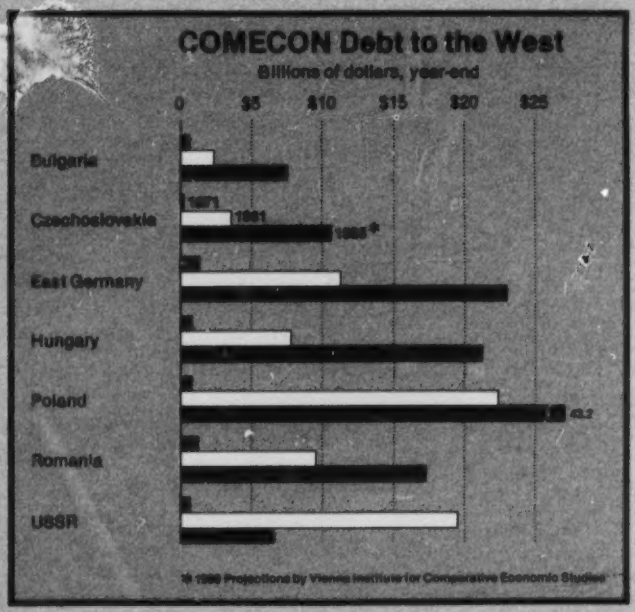
The COMECON countries rank relatively low in country risk comparisons for the granting of credits. Even Czechoslovakia—the least indebted of the group, with a debt service ratio of only 25%—would need to increase hard-currency exports by 25% a year while showing zero growth in imports in order to pay its debts. Such increases in export growth are clearly out of reach, while compelling needs are unlikely to allow imports to remain fixed at present levels. With even the least-indebted COMECON country not expected to repay its debts in the near future, the remaining members of the group are certainly not likely to.

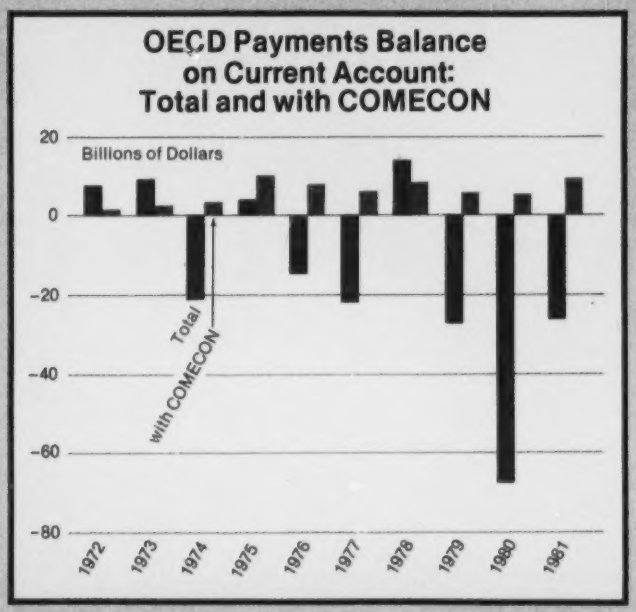
The prospects are for continued but unspectacular growth in East-West trade. Future development on both sides depends on the interplay between the desires and needs to expand the trade and the factors that necessarily limit it. The COMECON countries have great interest in











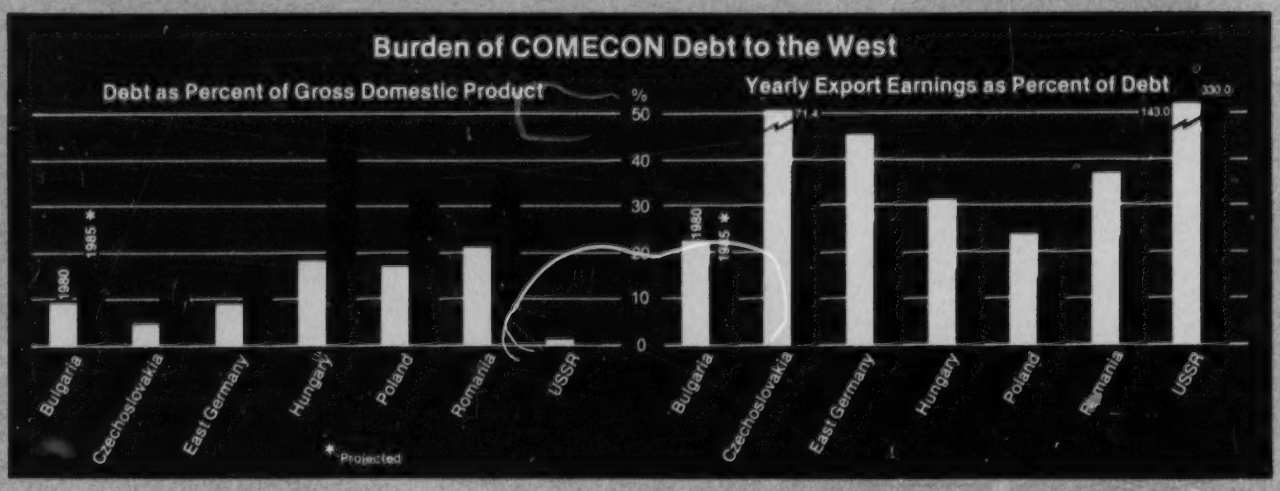
developing the trade. They want to import sophisticated technology to raise their standards of production, to import food and other products to ease production bottlenecks, and to acquire advantageous credits. But their slowing economic growth will limit production of export goods. They also have problems producing goods of a high enough quality to meet Western standards and compete in Western markets. Their difficulties in repaying credits received in the past and in obtaining future credits may also limit trade greatly.

The Western industrial countries are also interested in developing East-West trade. They are seeking raw materials and energy to decrease their dependence on Middle Eastern oil, as well as profits and jobs to counter the effect of the recession. The limiting factors on the Western side are the inconvenience of out-of-pocket, the low acceptability of COMECON goods, at least fear of importing economic difficulties from COMECON countries if dependence on East-West trade grows.

Josef Adamek

Note: COMECON - Council for Mutual Economic Assistance.

Sources: Organization for Economic Cooperation and Development; Vienna Institute for Comparative Economic Studies; The Economist; The Conference Board.



ECONOMIC ROAD MAPS

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